

**REPORT OF THE AUDIT OF THE
LETCHER COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2006**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Jim Ward, Letcher County Judge/Executive

Honorable Carroll Smith, Former Letcher County Judge/Executive

Members of the Letcher County Fiscal Court

The enclosed report prepared by Ross and Company, PLLC, Certified Public Accountants, presents the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements.

We engaged Ross and Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross and Company, PLLC evaluated the Letcher County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen

Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE LETCHER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

Ross and Company, PLLC has completed the audit of the Letcher County Fiscal Court for fiscal year ended June 30, 2006. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

Financial Condition:

The fiscal court had net assets of \$8,870,975 as of June 30, 2006. The fiscal court had unrestricted net assets of \$3,991,163 in its governmental activities as of June 30, 2006, with total net assets of \$8,774,321. In its business-type activities, total cash and cash equivalents were \$96,654 with total net assets of \$96,654.

Debt Obligations:

The fiscal court had total debt principal as of June 30, 2006 of \$3,884,000 with \$107,000 due within the next year.

Deposits:

On May 12, 2006, \$483,270 of the Fiscal Court's deposits were uninsured and under collateralized by bank securities or bonds.

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To the People of Kentucky
Honorable Ernie Fletcher, Governor
John Farris, Secretary
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Honorable Carroll Smith, Former Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Letcher County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Letcher County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky

Honorable Ernie Fletcher, Governor

John Farris, Secretary

Finance and Administration Cabinet

Honorable Jim Ward, Letcher County Judge/Executive

Honorable Carroll Smith, Former Letcher County Judge/Executive

Members of the Letcher County Fiscal Court

The county has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Letcher County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated September 22, 2006 on our consideration of Letcher County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in dark ink.

Ross & Company, PLLC

Audit fieldwork completed -
September 22, 2006

LETCHER COUNTY OFFICIALS

For The Year Ended June 30, 2006

Fiscal Court Members:

Carroll A. Smith	County Judge/Executive
Jim Ward	Magistrate
Wayne Fleming	Magistrate
Trey Narramore	Magistrate
Terry Adams	Magistrate
Randall Caudill	Magistrate

Other Elected Officials:

Harrold Bolling	County Attorney
Gary Cornett	Jailer
Winston Meade	County Clerk
Margaret Nichols	Circuit Court Clerk
Danny Webb	Sheriff
Randy Hall	Property Valuation Administrator
John Cornett	Coroner

Appointed Personnel:

Phillip Hampton	County Treasurer
Robin Kincer	Finance Officer
Linda Bailey	Payroll Clerk
Jim Revis	911 Administrator

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LETCHER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

LETCHER COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

June 30, 2006

	Primary Government		
	Governmental	Business-Type	
	Activities	Activities	Totals
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 3,991,163	\$ 96,654	\$ 4,087,817
Total Current Assets	3,991,163	96,654	4,087,817
Noncurrent Assets:			
Capital Assets - Net of Accumulated Depreciation:			
Land and Land Improvements	1,598,500		1,598,500
Buildings	5,917,822		5,917,822
Vehicles and Equipment	484,660		484,660
Infrastructure Assets-Net of Depreciation:	666,176		666,176
Total Noncurrent Assets	8,667,158		8,667,158
Total Assets	12,658,321	96,654	12,754,975
LIABILITIES			
Current Liabilities:			
Bonds Payable	107,000		107,000
Total Current Liabilities	107,000		107,000
Noncurrent Liabilities:			
Bonds Payable	3,777,000		3,884,000
Total Noncurrent Liabilities	3,777,000		3,884,000
Total Liabilities	3,884,000		3,991,000
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	4,783,158		4,783,158
Unrestricted	3,991,163	96,654	4,087,817
Total net assets	\$ 8,774,321	\$ 96,654	\$ 8,870,975

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006

LETCHER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Functions/Programs Reporting Entity	Expenses	Program Revenues Received	
		Charges for Services	Operating Grants and Contributions
Governmental Activities:			
General Government	\$ 2,039,646	\$	\$ 1,142,215
Protection to Persons and Property	1,313,682	41,171	355,402
General Health and Sanitation	2,176,407	952,163	3,568,887
Social Services	210,511		149,122
Recreation and Culture	16,004		
Roads	1,209,547		4,772,707
Debt Service (Interest)	189,288		
Capital Projects	2,944,837		
Total Governmental Activities	10,099,922	993,334	9,988,333
Business-type Activities:			
Jail Canteen	215,049	245,521	
Total Business-type Activities	215,049	245,521	
Total Primary Government	\$ 10,314,971	\$ 1,238,855	\$ 9,988,333

General Revenues:

Taxes:

Real Property Taxes

Personal Property Taxes

Other Taxes

Motel Tax

In Lieu of Taxes

Excess Fees

Licenses and Permits

Unrestricted Investment Earnings

Miscellaneous Revenues

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Net (Expenses) Revenues and Changes in Net Assets		
Reporting Entity		
Governmental Activities	Business-Type Activities	Totals
\$ (897,431)	\$	\$ (897,431)
(917,109)		(917,109)
2,344,643		2,344,643
(61,389)		(61,389)
(16,004)		(16,004)
3,563,160		3,563,160
(189,288)		(189,288)
(2,944,837)		(2,944,837)
881,745		881,745
	30,472	30,472
	30,472	30,472
881,745	30,472	912,217
605,992		605,992
185,285		185,285
377,821		377,821
36,781		36,781
819		819
55,286		55,286
8,397		8,397
68,094		68,094
224,594		224,594
1,563,069		1,563,069
2,444,814	30,472	2,475,286
6,329,507	66,182	6,395,689
\$ 8,774,321	\$ 96,654	\$ 8,870,975

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LETCHER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

LETCHER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

June 30, 2006

	General Fund	Road Fund	Local Government Economic Assistance Fund	Public Properties Corporation 1999 Bond Fund
ASSETS				
Cash and Cash Equivalents	\$ 260,867	\$ 1,721,539	\$ 1,533,262	\$ 356,146
Total assets	<u>\$ 260,867</u>	<u>\$ 1,721,539</u>	<u>\$ 1,533,262</u>	<u>\$ 356,146</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 4,755	\$ 104,613	\$ 6,573	\$
Unreserved:				
General Fund	256,112			
Special Revenue Fund		1,616,926	1,526,689	
Debt Service Fund				356,146
Total Fund Balances	<u>\$ 260,867</u>	<u>\$ 1,721,539</u>	<u>\$ 1,533,262</u>	<u>\$ 356,146</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
June 30, 2006
(Continued)

Non- Major Funds	Total Governmental Funds
<u>\$ 119,349</u>	<u>\$ 3,991,163</u>
<u>\$ 119,349</u>	<u>\$ 3,991,163</u>
\$ 27,656	\$ 143,597
	256,112
91,693	3,235,308
<u> </u>	<u>356,146</u>
<u>\$ 119,349</u>	<u>\$ 3,991,163</u>

Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:

Total Fund Balances	\$ 3,991,163
Amounts Reported For Governmental Activities In The Statement Of Net Assets Are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources And Therefore Are Not Reported in the Funds.	10,505,062
Accumulated Depreciation	(1,837,904)
Long-term Debt Is Not Due and Payable in the Current Period and, Therefore, Is Not Reported in the Funds.	
Bonded Debt	<u>(3,884,000)</u>
Net Assets Of Governmental Activities	<u>\$ 8,774,321</u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LETCHER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	General Fund	Road Fund	Local Government Economic Assistance Fund	Public Properties Corporation 1999 Bond Fund
REVENUES				
Taxes	\$ 1,165,114	\$	\$ 36,781	\$
In Lieu Tax Payments		819		
Excess Fees	55,286			
Licenses and Permits	8,397			
Intergovernmental	2,113,548	1,841,399	4,563,484	128,000
Charges for Services	952,163			
Miscellaneous	162,003	21,790	7,962	
Interest	7,077	26,865	26,216	6,555
Total Revenues	<u>4,463,588</u>	<u>1,890,873</u>	<u>4,634,443</u>	<u>134,555</u>
EXPENDITURES				
General Government	874,758	26,862	130,338	
Protection to Persons and Property	258,868		196,187	
General Health and Sanitation	611,497		598,257	
Social Services	53,850		15,107	
Recreation and Culture			188,433	
Roads		946,915	697,379	
Debt Service				
Principal				101,000
Interest				189,288
Capital Projects	1,757,695		1,187,142	
Administration	827,416	184,235	55,005	
Total Expenditures	<u>4,384,084</u>	<u>1,158,012</u>	<u>3,067,848</u>	<u>290,288</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>79,504</u>	<u>732,861</u>	<u>1,566,595</u>	<u>(155,733)</u>
Other Financing Sources (Uses)				
Transfers From Other Funds	450,000	550,000	100,569	192,340
Transfers To Other Funds	(656,037)	(550,000)	(1,035,000)	
Total Other Financing Sources (Uses)	<u>(206,037)</u>	<u></u>	<u>(934,431)</u>	<u>192,340</u>
Net Change in Fund Balances	(126,533)	732,861	632,164	36,607
Fund Balances - Beginning	387,400	988,678	901,098	319,539
Fund Balances - Ending	<u>\$ 260,867</u>	<u>\$ 1,721,539</u>	<u>\$ 1,533,262</u>	<u>\$ 356,146</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2006
(Continued)

Non- Major Funds	Total Governmental Funds
\$ 3,984	\$ 1,205,879
	819
	55,286
	8,397
1,341,902	9,988,333
41,171	993,334
32,839	224,594
1,381	68,094
<u>1,421,277</u>	<u>12,544,736</u>
	1,031,958
684,116	1,139,171
947,963	2,157,717
455,740	524,697
	188,433
	1,644,294
	101,000
	189,288
	2,944,837
252,764	1,319,420
<u>2,340,583</u>	<u>11,240,815</u>
<u>(919,306)</u>	<u>1,303,921</u>
948,128	2,241,037
	<u>(2,241,037)</u>
<u>948,128</u>	
28,822	1,303,921
90,527	2,687,242
<u>\$ 119,349</u>	<u>\$ 3,991,163</u>

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

For The Year Ended June 30, 2006

LETCHER COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 1,303,921
Governmental Funds Report Capital Outlays as Expenditures. However, in the Statement of Activities the Cost of those Assets Are Allocated over their Estimated Useful Lives and Reported as Depreciation Expense.	
Capital Outlay	1,299,200
Depreciation Expense	(259,307)
Bond Principal Payments Are Expensed in the Governmental Funds as a Use of Current Financial Resources. These Transactions, However, Have No Effect on Net Assets.	
Bond Payments	<u>101,000</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 2,444,814</u></u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

LETCHER COUNTY
STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Assets	
Current Assets:	
Cash and Cash Equivalents	\$ 96,654
Total Current Assets	<u>96,654</u>
 Total Assets	 <u>96,654</u>
 Unrestricted	 96,654
Total Net Assets	<u><u>\$ 96,654</u></u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LETCHER COUNTY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Operating Revenues	
Canteen Receipts	\$ 245,521
Total Operating Revenues	<u>245,521</u>
Operating Expenses	
Canteen Disbursements	<u>215,049</u>
Total Operating Expenses	<u>215,049</u>
Operating Income (Loss)	<u>30,472</u>
Change In Net Assets	30,472
Total Net Assets - Beginning	<u>66,182</u>
Total Net Assets - Ending	<u><u>\$ 96,654</u></u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

LETCHER COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2006

	Business-Type Activities - Enterprise Fund
	Jail Canteen Fund
Cash Flows From Operating Activities	
Jail Canteen Receipts	\$ 245,521
Payments to Suppliers	(215,049)
Net Cash Provided By Operating Activities	<u>30,472</u>
Net Increase (Decrease) in Cash and Cash Equivalents	30,472
Cash and Cash Equivalents - July 1, 2005	<u>66,182</u>
Cash and Cash Equivalents - June 30, 2006	<u><u>\$ 96,654</u></u>
 Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities	 Jail Canteen Fund
Operating Income (Loss)	<u><u>\$ 30,472</u></u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ 30,472</u></u>

The accompanying notes are an integral part of the financial statements.

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TO THE FINANCIAL STATEMENTS**

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LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2006

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on the Balance Sheet – Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expenses is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Letcher County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or whose exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. The County has no discretely presented component units.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Blended Component Unit (Continued)

Letcher County Public Properties Corporation

The Letcher County Public Properties Corporation is a legally separate entity established for the purpose of renovating the County's courthouse and detention center through issuance of long-term debt in the corporation's name. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Letcher County Public Properties Corporation. Financial information for the Letcher County Public Properties Corporation is blended within Letcher County's financial statements. The financial information can be found in the Public Properties Corporation 1964 Bond Fund and Public Properties Corporation 1999 Bond Fund.

C. Letcher County Elected Officials

Kentucky law provides for election of the below officials from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Letcher County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; and 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

Governmental Funds

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office For Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office For Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Governmental Funds (Continued)

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office of Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Public Properties Corporation 1999 Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Governor's Office For Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following nonmajor funds: Jail Fund, Senior Citizen Fund, Abandoned Mines Land Fund, and Forestry Fund.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Senior Citizens Fund, Abandoned Mines Land Fund, and Forestry Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties 1999 Bond Fund is presented as a debt service fund. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds (Continued)

The primary government reports the following proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery and Equipment	\$ 2,500	3-25
Vehicles	\$ 2,500	3-25
Infrastructure	\$ 20,000	10-50

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the county to budget the Letcher County Public Properties 1999 Bond Fund.

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 2. Deposits

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the County's deposits may not be returned. The County does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of May 12, 2006, \$483,270 of the County's bank balance was exposed to custodial credit risk as follows:

- Unsecured and uncollateralized - \$483,270 as of May 12, 2006

Note 3. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
Primary Government:				
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 1,416,000	\$ 182,500	\$	\$ 1,598,500
Total Capital Assets Not Being Depreciated	1,416,000	182,500		1,598,500
Capital Assets, Being Depreciated:				
Buildings	7,034,000	430,300		7,464,300
Vehicles and Equipment	498,691	241,634		740,325
Infrastructure	257,171	444,766		701,937
Total Capital Assets Being Depreciated	7,789,862	1,116,700		8,906,562
Less Accumulated Depreciation For:				
Buildings	(1,376,859)	(169,619)		(1,546,478)
Vehicles and Equipment	(188,439)	(67,226)		(255,665)
Infrastructure	(13,299)	(22,462)		(35,761)
Total Accumulated Depreciation	(1,578,597)	(259,307)		(1,837,904)
Total Capital Assets, Being Depreciated, Net	6,211,265	857,393		7,068,658
Governmental Activities Capital Assets, Net	\$ 7,627,265	\$ 1,039,893	\$	\$ 8,667,158

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 3. Capital Assets (Continued)

Depreciation expense was charged to functions of the primary government as follows:

<u>Governmental Activities:</u>	
General Government	\$ 125,267
Protection to Persons and Property	17,217
General Health and Sanitation	18,690
Social Services	19,844
Recreation and Culture	10,871
Roads	<u>67,418</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 259,307</u>

Note 4. Long-term Debt

A. General Obligation Bonds, Series 1999

On January 18, 1999, The Public Properties Corporation issued bonds in order to renovate the courthouse and detention center. On January 1, 1999, the Letcher County Public Properties Corporation and the Administrative Office of the Court (AOC) entered into a lease agreement for the purpose of obtaining office rental space for the AOC.

The premises leased by AOC will provide revenues to pay a portion of the bond principal and interest. Under the terms of the lease, the AOC has agreed to pay directly to the paying agents bank their pro rated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet a portion of the debt service requirement for the bonds.

The use allowance payment commences with occupancy by AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate AOC to do so.

As of June 30, 2006, the principal balance remaining was \$3,884,000. Future band payments are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	107,000	184,490
2008	112,000	179,408
2009	119,000	174,088
2010	125,000	168,435
2011	131,000	162,498
2012-2016	762,000	712,595
2017-2021	980,000	512,050
2022-2026	1,258,000	254,268
2027	<u>290,000</u>	<u>20,662</u>
Totals	<u>\$ 3,884,000</u>	<u>\$ 2,368,494</u>

LETCHER COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2006
(Continued)

Note 4. Long-term Debt (Continued)

B. Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 3,985,000	\$	\$ 101,000	\$ 3,884,000	\$ 107,000
Governmental Activities					
Long-term Liabilities	<u>\$ 3,985,000</u>	<u>\$</u>	<u>\$ 101,000</u>	<u>\$ 3,884,000</u>	<u>\$ 107,000</u>

Note 5. Interest On Long-term Debt and Financing Obligations

Debt Service on the Statement of Activities includes \$189,288 in interest on bonds.

Note 6. Employee Retirement System

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 7. Insurance

For the fiscal year ended June 30, 2006, Letcher County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 8. Prior Period Adjustment

The beginning net assets of governmental activities has been restated by \$4,106 for prior year voided checks. The general, road, local government economic assistance, and non-major funds beginning fund balances have been restated by \$455, \$378, \$1,155, and \$2,118, respectively, for prior year voided checks.

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LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis

For The Year Ended June 30, 2006

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 1,208,000	\$ 1,289,766	\$ 1,165,114	\$ (124,652)
Excess Fees	6,518	55,286	55,286	
Licenses and Permits			8,397	8,397
Intergovernmental Revenue	108,378	2,160,460	2,113,548	(46,912)
Charges for Services	1,150,000	1,150,000	952,163	(197,837)
Miscellaneous	176,450	176,450	162,003	(14,447)
Interest	7,500	7,500	7,077	(423)
Total Revenues	2,656,846	4,839,462	4,463,588	(375,874)
EXPENDITURES				
General Government	642,176	917,950	874,758	43,192
Protection to Persons and Property	266,338	272,438	258,868	13,570
General Health and Sanitation	619,382	750,315	611,497	138,818
Social Services	75,000	92,845	53,850	38,995
Debt Service				
Principal	101,000	101,000		101,000
Interest	228,000	92,000		92,000
Capital Projects	15,000	1,844,881	1,757,695	87,186
Administration	804,892	1,221,651	827,416	394,235
Total Expenditures	2,751,788	5,293,080	4,384,084	908,996
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	(94,942)	(453,618)	79,504	533,122
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	94,942	94,942	450,000	355,058
Transfers To Other Funds			(656,037)	(656,037)
Total Other Financing Sources (Uses)	94,942	94,942	(206,037)	(300,979)
Net Changes in Fund Balances		(358,676)	(126,533)	232,143
Fund Balances - Beginning		386,945	387,400	455
Fund Balances - Ending	\$ 0	\$ 28,269	\$ 260,867	\$ 232,598

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	ROAD FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
In Lieu of Taxes	\$ 775	775	\$ 819	\$ 44
Intergovernmental Revenue	1,065,597	1,065,597	1,841,399	775,802
Miscellaneous	1,150	1,150	21,790	20,640
Interest	16,000	16,000	26,865	10,865
Total Revenues	<u>1,083,522</u>	<u>1,083,522</u>	<u>1,890,873</u>	<u>807,351</u>
EXPENDITURES				
General Government	26,786	27,051	26,862	189
General Health and Sanitation	2,000	2,000		2,000
Roads	780,294	1,195,656	946,915	248,741
Administration	179,500	766,745	184,235	582,510
Total Expenditures	<u>988,580</u>	<u>1,991,452</u>	<u>1,158,012</u>	<u>833,440</u>
Excess (Deficiency) of Revenues				
Over Expenditures Before Other	94,942	(907,930)	732,861	1,640,791
Financing Sources (Uses)				
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			550,000	550,000
Transfers To Other Funds	94,942	(84,476)	(550,000)	(465,524)
Total Other Financing Sources (Uses)	<u>94,942</u>	<u>(84,476)</u>		<u>84,476</u>
Net Changes in Fund Balances		(992,406)	732,861	1,725,267
Fund Balances - Beginning		<u>988,300</u>	<u>988,678</u>	<u>378</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ (4,106)</u>	<u>\$ 1,721,539</u>	<u>\$ 1,725,645</u>

LETCHER COUNTY
BUDGETARY COMPARISON SCHEDULES
Required Supplementary Information - Modified Cash Basis
For The Year Ended June 30, 2006
(Continued)

	Local Governmental Economic Assistance Fund			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 28,000	\$ 28,000	\$ 36,781	\$ 8,781
Intergovernmental	2,728,757	5,116,315	4,563,484	(552,831)
Miscellaneous	11,000	11,000	7,962	(3,038)
Interest	16,000	16,000	26,216	10,216
Total Revenues	<u>2,783,757</u>	<u>5,171,315</u>	<u>4,634,443</u>	<u>(536,872)</u>
EXPENDITURES				
General Government	80,235	162,959	130,338	32,621
Protection to Persons and Property	50,201	232,672	196,187	36,485
General Health and Sanitation	760,622	661,272	598,257	63,015
Social Services	15,500	15,820	15,107	713
Recreation and Culture	111,000	199,100	188,433	10,667
Roads	696,317	702,317	697,379	4,938
Capital Project	740,750	2,006,289	1,187,142	819,147
Administration	42,700	575,024	55,005	520,019
Total Expenditures	<u>2,497,325</u>	<u>4,555,453</u>	<u>3,067,848</u>	<u>1,487,605</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>286,432</u>	<u>615,862</u>	<u>1,566,595</u>	<u>950,733</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds			100,569	100,569
Transfers To Other Funds	(686,432)	(686,432)	(1,035,000)	(348,568)
Total Other Financing Sources (Uses)	<u>(686,432)</u>	<u>(686,432)</u>	<u>(934,431)</u>	<u>(247,999)</u>
Net Changes in Fund Balances	(400,000)	(70,570)	632,164	702,734
Fund Balances - Beginning	<u>400,000</u>	<u>400,000</u>	<u>901,098</u>	<u>501,098</u>
Fund Balances - Ending	<u>\$ 0</u>	<u>\$ 329,430</u>	<u>\$ 1,533,262</u>	<u>\$ 1,203,832</u>

LETCHER COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2006

Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

LETCHER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS

Other Supplementary Information

June 30, 2006

LETCHER COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

June 30, 2006

	Jail Fund	Senior Citizens Fund	Forestry Fund	Total Non-Major Governmental Funds
ASSETS				
Cash and Cash Equivalents	\$ 49,463	\$ 66,819	\$ 3,067	\$ 119,349
Total Assets	<u>\$ 49,463</u>	<u>\$ 66,819</u>	<u>\$ 3,067</u>	<u>\$ 119,349</u>
FUND BALANCES				
Reserved for:				
Encumbrances	\$ 15,921	\$ 11,735	\$	\$ 27,656
Unreserved:				
Special Revenue Fund	<u>33,542</u>	<u>55,084</u>	<u>3,067</u>	<u>91,693</u>
Total Fund Balances	<u>\$ 49,463</u>	<u>\$ 66,819</u>	<u>\$ 3,067</u>	<u>\$ 119,349</u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006

LETCHER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2006

	Jail Fund	Senior Citizens Fund	Forestry Fund
REVENUES			
Taxes	\$	\$	\$ 3,984
Intergovernmental	292,437	149,122	
Charges for Services	41,171		
Miscellaneous	22,285	10,554	
Interest	807	574	
Total Revenues	<u>356,700</u>	<u>160,250</u>	<u>3,984</u>
EXPENDITURES			
Protection to Persons and Property	680,474		3,642
General Health and Sanitation		47,620	
Social Services		455,740	
Administration	157,294	95,470	
Total Expenditures	<u>837,768</u>	<u>598,830</u>	<u>3,642</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(481,068)</u>	<u>(438,580)</u>	<u>342</u>
Other Financing Sources (Uses)			
Transfer From Other Funds	490,000	458,128	
Total Other Financing Sources (Uses)	<u>490,000</u>	<u>458,128</u>	
Net Change in Fund Balances	8,932	19,548	342
Fund Balances - Beginning	40,531	47,271	2,725
Fund Balances - Ending	<u>\$ 49,463</u>	<u>\$ 66,819</u>	<u>\$ 3,067</u>

The accompanying notes are an integral part of the financial statements.

LETCHER COUNTY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2006
(Continued)

Abandoned Mines Land Fund	Total Non-Major Governmental Funds
\$	\$
900,343	3,984
	1,341,902
	41,171
	32,839
	1,381
<u>900,343</u>	<u>1,421,277</u>
	684,116
900,343	947,963
	455,740
	252,764
<u>900,343</u>	<u>2,340,583</u>
	(919,306)
	948,128
	<u>948,128</u>
	28,822
	90,527
<u>\$</u>	<u>\$ 119,349</u>

The accompanying notes are an integral part of the financial statements.

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LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2006

LETCHER COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Fiscal Year Ended June 30, 2006

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, business - type activities, each major fund, and aggregate remaining fund information of Letcher County, Kentucky.
2. No reportable conditions relating to the internal control of the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instance of noncompliance material to the financial statements of Letcher County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Letcher County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Letcher County reported in Part C of this schedule.
7. The programs tested as major programs were: Community Development Block Grant (CFDA 14.228) and Abandoned Mine Land Reclamation Project (CFDA 15.252)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Letcher County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

STATE LAWS AND REGULATIONS

None.

REPORTABLE CONDITIONS

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None

D. PRIOR YEAR FINDINGS

- The Fiscal Court Should Review The Administrative Code Annually.
 - This finding has been corrected.
- The Jailer Should Submit His Annual Jail Canteen Report To The County Treasurer
 - This finding has been corrected.
- Jail Operating Expenditures Should Be Paid From The Jail Fund
 - This finding has been corrected.

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LETCHER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

LETCHER COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year Ended June 30, 2006

<u>Program Title</u>	<u>Grant Identification No.</u>	<u>Federal CFDA No.</u>	<u>Federal Expenditures</u>	<u>Total By CFDA #</u>
U.S. Department of Homeland Security		<i>Cluster</i>		
<i>Passed Through KY Office of Homeland Security</i>				
Emergency Management Performance Grant	M-05029993	97.042	\$ 6,065	\$ 6,065
Public Assistance Grants:				
Disaster Grant	FEMA-1523-DR	97.036	6,843	6,843
Total U.S. Department of Homeland Security				12,908
U.S. Department of Health and Human Services				
<i>Passed Through KY Cabinet for Health & Family Services</i>				
<i>Under Agreement with Kentucky River Area Development District</i>				
Special Programs for the Aging - Part B - Supportive Services	M-05187219	93.044	27,285	
Special Programs for the Aging - Part C - Nutrition Services	M-05187219	93.045	54,151	
Nutrition Services Incentive Programs	M-05187219	93.053	49,931	131,367
U.S. Department of Housing and Urban Development				
<i>Passed through Governor's Office for Local Development</i>				
Community Development Block Grant	M-02050136	14.228	876,470	876,470 ***
U.S. Department of Interior				
<i>Passed Through KY Environmental and Public Protection Cabinet</i>				
Abandoned Mine Land Reclamation Program	M-04159604	15.252	900,343	900,343 ***
<i>Passed Through KY Commerce Cabinet, KY Heritage Council</i>				
Historic Preservation Fund Grant (Note B)	FY-06-05-HP-714	15.904	6,537	6,537
Total U.S. Department of Interior				906,880
U.S. Department of Health and Human Services				
<i>Passed through Ky State Board of Elections:</i>				
Voting Access for Individuals with Disabilities	n/a	93.617	175,000	175,000
TOTAL FEDERAL EXPENDITURES				\$ 2,102,626

*Tested as Major Program or Cluster ****

LETCHER COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2006

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Letcher County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The Letcher County Fiscal Court provided Federal awards to sub recipients as follows:

Letcher County Convention and Tourism Commission

	<u>CFDA #</u>	<u>Amount</u>
Historic Preservation Fund Grant	15.904	\$6,537

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY 40299
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Carroll Smith, Former Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

**Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2006, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated September 22, 2006. Letcher County, Kentucky prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Letcher County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Letcher County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Report On Internal Control Over Financial Reporting
And On Compliance And Other Matters Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script that reads "Ross and Company".

Ross and Company, PLLC

Audit fieldwork completed -
September 22, 2006

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
Telephone (502) 499-9088
Facsimile (502) 499-9132
www.rosscpas.com

The Honorable Jim Ward, Letcher County Judge/Executive
The Honorable Carroll Smith, Former Letcher County Judge/Executive
Members of the Letcher County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Letcher County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2006. Letcher County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Letcher County's management. Our responsibility is to express an opinion on Letcher County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Letcher County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Letcher County's compliance with those requirements.

In our opinion, Letcher County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Letcher County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Letcher County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

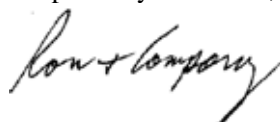
Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", is written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
September 22, 2006

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

LETCHER COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2006**

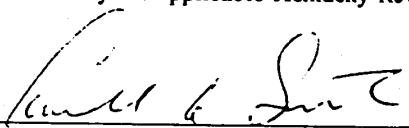
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

LETCHER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2006

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



Name
County Judge/Executive



Name
County Treasurer

